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PAGE 01 OTTAWA 04618 01 OF 06 022252Z

ACTION EB-07

INFO OCT-01 ISO-00 EUR-12 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01

PRS-01 FS-01 /105 W

-----030006Z 044609 /13

P 022207Z JUN 77

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INFO AMCONSUL MONTREAL

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LIMITED OFFICIAL USE SECTION 01 OF 06 OTTAWA 04618

E.O. 11652: N/A

TAGS: ENRG, ETRD, CA

SUBJECT: NATIONAL ENERGY BOARD 1977 REPORT ON CANADIAN
OIL SUPPLIES AND REQUIREMENTS

REF: OTTAWA 4044

1. SUMMARY: ENERGY, MINES AND RESOURCES (EMR) MINISTER ALASTAIR GILLESPIE TABLED NATIONAL ENERGY BOARD'S (NEB) 1977 REPORT ON CANADIAN OIL SUPPLY AND REQUIREMENTS IN HOUSE OF COMMONS MAY 26. REPORT SAYS THAT RESERVES ARE CONTINUING TO DECLINE AND THAT BY EARLY 1980'S CANADA'S RELIANCE ON IMPORTS WILL BEGIN TO GROW. BY 1990 RELIANCE ON IMPORTS IS EXPECTED TO TOTAL 1.3 MILLION BARRELS PER DAY (B/D). REPORT SAYS THAT LIGHT CRUDE EXPORTS TO U.S. WILL DROP FROM PRESENT 180,000 B/D TO 137,000 B/D EFFECTIVE JULY 1. HEAVY CRUDE EXPORTS ARE ESTIMATED TO BE 123,000 B/D FOR 1977 WITH ACTUAL EXPORT LEVELS DEPENDING ON ACTUAL PRODUCTION AND CANADIAN REQUIREMENTS. TOTAL (LIGHT AND HEAVY) JULY EXPORTS WILL THEREFORE BE LIMITED OFFICIAL USE

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PAGE 02 OTTAWA 04618 01 OF 06 022252Z

APPROXIMATELY 260,000 B/D, DOWN 10 PERCENT FROM PRESENT APPROXIMATE LEVEL OF 290,000 B/D. NEB SUPPLY AND DEMAND ESTIMATES INDICATE LIGHT CRUDE EXPORTS WILL DROP TO 54,000 B/D IN 1978, TO 20,000 B/D IN 1979, TO 1,000 B/D IN 1980, AND IN 1981 TO ZERO. HEAVY OIL EXPORTS ARE FORECAST AT 110,000 B/D IN 1978, 99,000 B/D IN 1979, 88,000 B/D IN 1980, AND 77,000 IN 1981; BOARD'S

PROJECTION ENDS IN 1986 AT 26,000 B/D LEVEL. COMMENTING TO PRESS AFTER TABLING REPORT AND FOLLOWING DAY (MAY 27) DURING QUESTION PERIOD GILLESPIE SAID HE BELIEVES NEB ESTIMATES OF FUTURE SUPPLY ARE CONSERVATIVE AND NEW POLICIES TO ENCOURAGE DEVELOPMENT OF HEAVY OIL AND OIL SANDS AS WELL AS WESTERN ARCTIC NATURAL GAS WILL REDUCE NEED FOR IMPORTS. COMMENT: POSSIBILITY THAT DOMESTIC GAS MIGHT SUBSTITUTE FOR IMPORTED OIL COULD INFLUENCE PIPELINE DECISION. END SUMMARY.

2. BOARD'S 1977 REPORT REPRESENTS THIRD IN SERIES OF PERIODIC NEB REVIEWS OF OIL SUPPLY AND DEMAND PICTURE IN LIGHT OF BOARD'S "PROTECTION PROCEDURE" UNDER WHICH EXPORTS ARE LIMITED WHEN TEN YEARS OF FUTURE CANADIAN REQUIREMENTS FOR DOMESTIC CRUDE OIL AND EQUIVALENT FEEDSTOCKS CANNOT BE ASSURED. FIRST OF THESE REPORTS WAS RELEASED OCTOBER 1974, SECOND IN SEPTEMBER 1975. 1977 REPORT IS BASED ON HEARINGS CONDUCTED IN OCTOBER 1976 AND DIFFERS FROM 1974 AND 1975 REPORTS IN SEVERAL RESPECTS: FORECASTS OF REQUIREMENTS FOR INDIGENOUS FEEDSTOCKS ARE DEVELOPED WITHIN A TOTAL PRIMARY ENERGY FRAMEWORK FOR SECTORS OF ENERGY DEMAND WHERE OIL COMPETES WITH NATURAL GAS, HYDRO ELECTRICITY, NUCLEAR AND COAL; ALTERNATIVE SUPPLY-DEMAND SCENARIOS ARE PRESENTED TO EMPHASIZE UNCERTAINTY IN FORECASTING; AND SUPPLY OF AND REQUIREMENTS FOR HEAVY CRUDE ARE TREATED SEPARATELY FROM LIGHT CRUDE AND EQUIVALENT. FOLLOWING PARAGRAPHS OUTLINE HIGHLIGHTS OF REPORT.

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PAGE 03 OTTAWA 04618 01 OF 06 022252Z

3. SUPPLY OF CRUDE OIL AND EQUIVALENT:

-- DURING YEAR 1 JANUARY 1975 TO 1 JANUARY 1976 REMAINING RESERVES OF CONVENTIONAL CRUDE OIL SHOWED NET DECREASE OF 403.6 MILLION BARRELS FROM 6877.9 MILLION BARRELS TO 6474.3 MILLION BARRELS.

-- AGGREGATE POTENTIAL PRODUCIBILITY OF ESTABLISHED RESERVES DIFFERS LITTLE FROM FORECAST PRESENTED IN NEB SEPTEMBER 1975 REPORT. (GRAPHED CURVE RUNNING FROM 1.75 MILLION B/D IN 1976 TO APPROXIMATELY 230,000 B/D IN 1995 IS VIRTUALLY IDENTICAL TO CURVE SHOWN IN 1975 REPORT.)

-- 1977 REPORT REITERATES 1975 CONCLUSION THAT RESERVES ADDITIONS WOULD ACCRUE LARGELY FROM IMPROVED RECOVERY METHODS AS OPPOSED TO NEW DISCOVERIES.

-- AGGREGATE POTENTIAL FOR RESERVES ADDITIONS FOR EXPECTED SCENARIO IS ESTIMATED AT 3.17 BILLION BARRELS

OF WHICH 1.10 BILLION BARRELS ARE EXPECTED TO ACCRUE FROM
NEW DISCOVERIES AND 2.07 BILLION BARRELS FROM IMPROVED
RECOVERY METHODS IN DISCOVERED RESERVOIRS. OF 2.07
BILLION BARRELS, 1.54 BILLION BARRELS ARE CREDITED TO
TERTIARY METHODS: CHEMICAL FLOODING, MISCIBLE FLOODING
AND THERMAL TECHNIQUES. REMAINING 0.53 BILLION BARRELS
RESULT FROM INFILL DRILLING AND WATER FLOODING.
-- ABOUT ONE-HALF OF AGGREGATE POTENTIAL FOR RESERVES
ADDITIONS IS ATTRIBUTED TO FURTHER EXPLOITATION OF HEAVY
CRUDE RESERVOIRS. NEB BELIVES THESE DEVELOPMENTS WILL
OCCUR PROVIDED WELLHEAD PRICES MOVE TOWARDS INTERNATIONAL
LEVELS AND MARKETS ARE AVAILABLE FOR HEAVY
CRUDE OIL PRODUCTION. THESE FORECASTS ARE SLIGHTLY

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PAGE 01 OTTAWA 04618 02 OF 06 022257Z
ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01
PRS-01 FS-01 /105 W

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P 022207Z JUN 77
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INFO AMCONSUL MONTREAL
ALL OTHER AMCONSULS CANADA (POUCH)

LIMITED OFFICIAL USE SECTION 02 OF 06 OTTAWA 04618

HIGHER THAN THOSE IN 1975 REPORT, BECAUSE NEB IS MORE
OPTIMISTIC ABOUT PROSPECTS OF HEAVY CRUDE DEVELOPMENT.

-- NEB IS CONVINCED THAT OIL SANDS DEVELOPMENT RATE SHOWN
IN SEPTEMBER 1975 REPORT WILL NOT BE REALIZED AND THAT
SIGNIFICANT DOWNWARD ADJUSTMENT IS CALLED FOR GIVEN CURRENT
EXPECTATIONS. FOLLOWING TABLE (EXTRAPOLATED FROM GRAPHED
CURVE IN REPORT) COMPARES 1975 AND 1977 PROJECTIONS OF
OIL SANDS PRODUCTION IN THOUSANDS OF BARRELS PER DAY
(MB/D):

----- 1985 1987 1989 1991 1993 1995

SEPT 1975

FORECAST 360 520 640 800 980 OFF GRAPH

1977

FORECAST

(EXPECTED

CASE) 200 240 350 460 540 590

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PAGE 02 OTTAWA 04618 02 OF 06 022257Z

-- BOARD HOLDS TO PREVIOUS FINDING THAT OIL PRODUCTION FROM FRONTIER REMAINS TOO SPECULATIVE TO WARRANT INCLUSION IN PROCEDURE DESIGNED TO PROVIDE PROTECTION FOR CANADIAN REQUIREMENTS. IT IS HIGHLY UNLIKELY THAT ANY SIGNIFICANT VOLUME OF FRONTIER OIL COULD MOVE TO CANADIAN MARKETS DURING 10-YEAR PERIOD COVERED BY PROTECTION PROCEDURE.

-- FOLLOWING IS SUMMARY OF POTENTIAL PRODUCIBILITY FORECASTS. (DATA SHOWN ONLY AT FIVE-YEAR INTERVALS AFTER 1980 IN MB/D):

----- LIGHT CRUDE OIL AND EQUIVALENT

----- HEAVY CRUDE OIL

----- ESTABLISHED RESERVES PENTANES OIL SUB-

----- RESERVES ADDITIONS PLUS SANDS TOTAL

1976	208	-	8	5	221
1977	200	7	9	5	221
1978	184	20	9	5	218
1979	166	31	9	5	211
1980	148	41	9	6	204
1985	85	74	9	15	183
1990	49	88	9	15	161
1995	28	90	9	15	142
1980	1046	22	111	150	1329
1985	543	63	78	190	874
1990	303	101	54	340	798
1995	181	114	35	560	890
1995	28	90	9	15	142

----- TOTAL CRUDE OIL AND EQUIVALENT

----- ESTABLISHED RESERVES PENTANES OIL SUB-

----- RESERVES ADDITIONS PLUS SANDS TOTAL

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PAGE 03 OTTAWA 04618 02 OF 06 022257Z

1976 1716 - 145 55 1916

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PAGE 01 OTTAWA 04618 03 OF 06 022303Z

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01

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LIMITED OFFICIAL USE SECTION 03 OF 06 OTTAWA 04618

1977	1631	11	140	55	1837
1978	1511	27	133	55	1726
1979	1357	46	127	110	1640
1980	1194	63	120	156	1533
1985	628	137	87	205	1057
1990	352	189	63	355	959
1995	209	204	44	575	1032

4. DEMAND FOR TOTAL ENERGY:

-- ENERGY DEMAND FORECASTS EMPLOY ECONOMIC GROWTH PROJECTION BASED ON CANDIDE ECONOMETRIC MODEL OF CANADIAN ECONOMY. VALUES CHOSED ARE SIMILAR TO GROWTH CASES USED IN EMR STUDY, "AN ENERGY STRATEGY FOR CANADA."

-- FORECAST ASSUMES FOLLOWING: REAL GNP WILL INCREASE AT AVERAGE ANNUAL RATE OF 5.2 PERCENT FOR 1976-1980; AFTER 1980, GROWTH RATE WILL MODERATE, AVERAGING 3.4 PERCENT OVER 1980-1995 PERIOD; WORLD PRICE OF CRUDE OIL WILL REMAIN CONSTANT IN REAL TERMS AT 1975 LEVEL; DOMESTIC CRUDE
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PAGE 02 OTTAWA 04618 03 OF 06 022303Z

OIL WILL RISE TOWARD WORLD PRICE OF OIL APPROACHING IT IN 1980 ;TORONTO CITY-GATE NATURAL GAS PRICE WILL INCREASE TO PARITY WITH REFINERY-GATE CRUDE OIL PRICE ON BTU BASIS IN 1980 ;AFTER 1980, OIL AND GAS PRICES WILL REMAIN CONSTANT IN REAL TERMS. ELECTRICITY PRICES WILL INCREASE IN REAL TERMS TO 1980, REMAINING CONSTANT IN REAL TERMS THEREAFTER. BOARD'S ASSUMPTIONS ARE FOR FORECASTING PURPOSES AND CANNOT BE CONSIDERED TO REPRESENT GOC POLICY INTENTIONS.

-- REPORT FORECASTS PRIMARY ENERGY DEMAND TO INCREASE FROM 1975 LEVEL OF 8.0 QUADRILLION BTU'S ("QUADS") TO 11.0 QUADS IN 1985 AND 14.3 QUADS IN 1995, IMPLYING 2.8 PERCENT AVERAGE ANNUAL GROWTH RATE OVER FORECAST PERIOD. PRIMARY OIL DEMAND ESTIMATED BY NEB TO GROW MORE SLOWLY THAN PRIMARY ENERGY DEMAND, RISING FROM 3.5 QUADS IN 1975 TO 4.7 QUADS IN 1985, 5.5 QUADS IN 1995, A 2.1 PERCENT AVERAGE ANNUAL GROWTH RATE.

5. DEMAND FOR REFINED PETROLEUM PRODUCTS:

-- FROM 1976 TO 1995 REFINED PETROLEUM PRODUCTS DEMAND IN CANADA IS EXPECTED TO INCREASE 2.0 PERCENT PER YEAR. GROWTH EXPECTED TO BE MORE RAPID IN INITIAL PART OF THIS PERIOD, AVERAGING 3.8 PERCENT PER YEAR FROM 1976 TO 1980, THEN SLOWING OVER REMAINDER OF FORECAST PERIOD TO 1.6 PERCENT PER YEAR. GROWTH IN DEMAND FOR REFINED PETROLEUM PRODUCTS IS EXPECTED TO BE HIGHER WEST OF OTTAWA VALLEY ("WOV"), AVERAGING 2.2 PERCENT PER YEAR OVER FORECAST PERIOD, THAN EAST OF OTTAWA VALLEY ("EOV"), WHERE IT IS FORECAST AT 1.8 PERCENT PER YEAR.

-- MOTOR GASOLINE AND LIGHT FUEL OIL, KEROSENE AND STOVE OIL ARE EXPECTED TO DECLINE AS PROPORTION OF TOTAL PRODUCTION DEMAND WHILE REMAINING PRODUCTS GAIN.

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PAGE 03 OTTAWA 04618 03 OF 06 022303Z

6. REQUIREMENTS FOR FEEDSTOCKS:

-- NEB BELIEVES AGGREGATE RUNS OF INDIGENOUS CRUDE OIL AND EQUIVALENT AT WOV REFINERIES SHOULD BE AT LEVELS SUFFICIENT TO MEET LOCAL DEMANDS FOR LIGHT PRODUCTS, WITH MINIMAL SURPLUSES OF MOTOR GASOLINE OR MIDDLE DISTILLATES. APPLICANTS FOR PRODUCT EXPORT LICENSES WILL

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PAGE 01 OTTAWA 04618 04 OF 06 022310Z
ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01
PRS-01 FS-01 /105 W

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P 022207Z JUN 77

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INFO AMCONSUL MONTREAL

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LIMITED OFFICIAL USE SECTION 04 OF 06 OTTAWA 04618

BE INCREASINGLY REQUIRED THEREFORE TO SHOW THAT VOLUMES
DESIRED FOR EXPORT HAVE NECESSARILY BEEN MANUFACTURED AS
CONSEQUENCE OF MEETING LOCAL MARKET NEEDS IN AN ECONOMIC
MANNER AND WITH OPTIMUM CONSUMPTION OF INDIGENOUS FEED-
STOCKS.

-- IN PROJECTING 1980 REQUIREMENTS FOR WOV FEEDSTOCKS, NEB
ASSUMES THAT NET PRODUCT EXPORTS WILL FALL TO NORMAL
LEVELS BY 1990. BOARD ASSUMES LARGE TRANSFERS OF HEAVY
FUEL OIL ACROSS OTTAWA VALLEY WILL NOT CONTINUE AFTER 1979.

-- FOR EOY AREA, BOARD FORECASTS PRESENT REFINERY CAPACITY
(EXCLUDING SHUT-DOWN REFINERY AT COME-BY-CHANCE,
NEWFOUNDLAND) WILL BE IN EXCESS OF LOCAL REQUIREMENTS UNTIL
POST-1985 PERIOD.

-- AVERAGE ANNUAL RATE OF GROWTH IN REQUIREMENTS FOR CRUDE
OIL AND EQUIVALENT FOR 1976-1995 PERIOD IS ESTIMATED AT
2.0 PERCENT. FOR "EXPORT FORMULA CASE" AVERAGE ANNUAL
RATE OF GROWTH WOULD BE 3.3 PERCENT (NOTE: EXPORT FORMULA
CASE IS ESTIMATE OF ENERGY DEMAND LEVELS IF ENERGY HAD
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PAGE 02 OTTAWA 04618 04 OF 06 022310Z

REMAINED AT 1972 PRICES AND CONSERVATION PROGRAMS NOT BEEN DEVELOPED; EXPORT CASE THUS PERMITS COMPARISON TO SHOW IMPACT OF CONSERVATION MEASURES.) FOLLOWING TABLE SHOWS NEB FORECAST OF REQUIREMENTS FOR INDIGENOUS CRUDE OIL AND EQUIVALENT (MB/D):

----- NEB FORECAST

-----	TOTAL	HEAVY CRUDE OIL	LIGHT CRUDE OIL AND EQUIVALENT
1976	975	79	896
1977	1231	98	1133
1978	1341	108	1233
1979	1378	112	1266
1980	1423	115	1308
1985	1490	134	1356
1990	1535	150	1385
1995	1655	169	1486

----- NEB EXPORT FORMULA CASE

1976	984	79	905
1977	1256	98	1158
1978	1388	108	1280
1979	1449	112	1337
1980	1523	115	1408
1985	1733	134	1599
1990	1880	150	1730
1995	2051	169	1882

-- IN ADDITION TO WOV REQUIREMENTS, ABOVE FORECAST INCLUDES SHIPMENTS OF 250,000 B/D TO EOY REFINERIES.

7. LICENSING PROCEDURES:

-- NEB BELIEVES HEAVY CRUDE OIL SHOULD BE LICENSED LIMITED OFFICIAL USE

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PAGE 03 OTTAWA 04618 04 OF 06 022310Z

SEPARATELY IN FUTURE AND THAT DETERMINATION OF EXPORT VOLUMES OF HEAVY CRUDE OIL SHOULD BE MADE INDEPENDENTLY OF EXPORT VOLUMES OF LIGHT CRUDE OIL AND EQUIVALENT. LICENSING CONDENSATE AND SYNTHETIC CRUDE SHOULD BE TREATED IN SAME CATEGORY AS LIGHT CRUDE TO DETERMINE SURPLUS AVAILABLE FOR EXPORT. BOARD WILL CONTINUE TO WEIGH CIRCUMSTANCES OF EACH PRODUCT EXPORT APPLICATION AND LICENSES WILL BE ISSUED ONLY IF PARTICULAR PRODUCT TO BE EXPORTED IS SURPLUS TO CANADIAN NEEDS IN REGIONS TO WHICH IT HAS ACCESS.

8. PROTECTION FOR CANADIAN REQUIREMENTS:

-- IN DETERMINING ALLOWABLE LEVEL OF CRUDE OIL AND EQUIVALENT EXPORTS FOR 1977 NEB WILL EMPLOY FORMULA OUTLINED IN OCTOBER 1974 AND SEPTEMBER 1975 REPORTS. HOWEVER, CONTRARY TO PREVIOUS YEARS, PROCEDURE WILL BE APPLIED SEPARATELY FOR HEAVY CRUDE OIL AND LIGHT CRUDE OIL AND EQUIVALENT.

-- USING FORMULA, FURTHER ALLOWABLE EXPORTS OF LIGHT CRUDE OIL AND EQUIVALENT ARE ESTIMATED TO BE:

YEAR	ALLOWABLE EXPORTS (MB/D)
1977	137
1978	54
1979	20
1980	1
1981	0

-- AS LIGHT CRUDE EXPORTS ARE REDUCED TO ZERO, NEB

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PAGE 01 OTTAWA 04618 05 OF 06 022331Z
ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01
PRS-01 FS-01 /105 W

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P 022207Z JUN 77

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LIMITED OFFICIAL USE SECTION 05 OF 06 OTTAWA 04618

EXPECTS EXCEPTIONS TO POLICY OF PHASING OUT LIGHT CRUDE EXPORTS WILL PROBABLY BE NECESSARY. SYNTHETIC CRUDE OIL AND CONDENSATE MAY BECOME AVAILABLE IN EXCESS OF CALCULATED SURPLUS VOLUME AND OPERATIONAL CONSTRAINTS MAY ALSO REQUIRE

FUTURE LIGHT CRUDE OIL AND EQUIVALENT EXPORTS.

-- APPLICATION OF FORMULA TO DETERMINE LONG TERM TREND OF
HEAVY OIL EXPORTS:

YEAR	ALLOWABLE EXPORTS (MB/D)
1977	123
1978	110
1979	99
1980	88
1981	77
1982	68
1983	54
1984	42
1985	32

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PAGE 02 OTTAWA 04618 05 OF 06 022331Z

1986	26
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-- IN APPLYING EXPORT FORMULA TO ITS ESTIMATES OF SUPPLY
AND REQUIREMENTS FOR LIGHT AND HEAVY CRUDE OIL, NEB HAS
NOT ADJUSTED ESTIMATES TO ACCOUNT FOR EFFECTS OF UPGRADING
HEAVY CRUDE OIL. NET EFFECT OF PROCESSING HEAVY CRUDE
OIL INTO SYNTHETIC LIGHT CRUDE OIL WOULD BE TO CREATE
ADDITIONAL CANADIAN REQUIREMENTS FOR HEAVY CRUDE OIL AND
ADDITIONAL SUPPLY OF LIGHT CRUDE OIL AND EQUIVALENT.

9. POSSIBLE RANGE OF SUPPLY AND REQUIREMENTS SCENARIOS:

-- SUPPLY PROJECTION EXAMINED MINIMUM AND MAXIMUM
PRODUCIBILITY CASES. MAXIMUM CASE ASSUMES EACH OF FOUR
SUPPLY DETERMINANTS, GEOLOGY, TECHNOLOGY, PRICE AND
GOVERNMENT POLICY ENCOURAGES SUPPLY. ANALYSIS DEMON-
STRATED THAT CRUDE OIL AND EQUIVALENT SUPPLY IS LIKELY TO
REMAIN WITHIN NARROW FORECAST LIMITS OVER NEXT DECADE
OWING PRINCIPALLY TO LEAD-TIME REQUIRED TO BRING NEW
SUPPLIES INTO PRODUCTION. IN SECOND DECADE, IN 1990 FOR
EXAMPLE, DIFFERENCE BETWEEN MINIMUM AND MAXIMUM SCENARIOS
IS 579 MB/D. OF THIS TOTAL, SOME 68 PERCENT IS FROM
OIL SANDS AND ABOUT 10 PERCENT IS FROM ENHANCED RECOVERY.

-- REQUIREMENTS PROJECTION EXAMINED SIX DEMAND SCENARIOS
COMBINING TWO FORECASTS OF ECONOMIC GROWTH AND THREE OIL
PRICE ASSUMPTIONS. RESULTING ANNUAL GROWTH RATES IN
REQUIREMENTS FOR INDIGENOUS CRUDE OIL AND EQUIVALENT VARY
FROM 1.3 PERCENT FOR MINIMUM CASE TO 3.8 PERCENT FOR
MAXIMUM CASE.

-- VARIATION IN ESTIMATES OF SUPPLY AND REQUIREMENTS

BETWEEN MINIMUM AND MAXIMUM CASES DOES NOT SIGNIFICANTLY
CHANGE ESTIMATED TIME AT WHICH PRODUCIBILITY OF
INDIGENOUS CRUDE OIL WILL NO LONGER MEET WOV REQUIREMENTS
PLUS 250 MB/D FOR MONTREAL. NEB ESTIMATES THIS WILL
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PAGE 03 OTTAWA 04618 05 OF 06 022331Z

ALMOST CERTAINLY OCCUR BETWEEN 1981 AND 1983.

-- MOST LIKELY CASE SHOWS INDIGENOUS OIL SUPPLY WILL FALL
SHORT OF REQUIREMENTS BY APPROXIMATELY 450 MB/D IN 1985,
AND SHORTFALL WILL INCREASE TO AROUND 600 MB/D IN 1990-
1995 PERIOD.

-- EVEN IF LOW REQUIREMENTS AND HIGH SUPPLY FORECASTS
PROVE TRUE, INDIGENOUS OIL SUPPLY IS PROJECTED TO FALL
SHORT OF REQUIREMENTS BY APPROXIMATELY 250 MB/D IN 1985,
ALTHOUGH SHORTFALL DECREASES SLOWLY THEREAFTER.

-- WORST SITUATION CONSIDERED, HIGH REQUIREMENTS LOW
SUPPLY CASE SHOWS THAT INDIGENOUS SUPPLY FALLS SHORT OF
REQUIREMENTS BY ABOUT 800 MB/D IN 1985, AND BY AS MUCH
AS 1800 MB/D BY 1995.

-- EVIDENTLY, IMPORTED CRUDE OIL WILL BE REQUIRED IN EARLY
1980'S IN MARKETS NOW SERVED BY INDIGENOUS CRUDE.
INITIALLY, ADDITIONAL IMPORTED CRUDE WILL BE TAKEN INTO
MONTREAL. LATER, IT SEEMS LIKELY THAT WOV REFINERIES
WILL NEED IMPORTED OIL. FEEDSTOCK REQUIREMENTS OF
REFINERIES IN ONTARIO AND WESTERN CANADA COULD BOTH BE
MET BY FOREIGN CRUDE.

-- EXPECTED CASE SCENARIO FOR ALL CANADA SHOWS PRODUCTION
OF INDIGENOUS CRUDE OIL AND EQUIVALENT WILL FALL SHORT OF
REQUIREMENTS BY APPROXIMATELY 1150 MB/D IN 1985, INCREASING
TO 1300 MB/D IN 1990-1995 PERIOD. THESE SHORTFALLS, WHICH
WILL HAVE TO BE COVERED BY IMPORTS OF FOREIGN OIL,
REPRESENT 52 PERCENT OF TOTAL REQUIREMENTS IN 1985 AND 55
PERCENT FOR 1990-1995 PERIOD.

10. EMR MINISTER GILLESPIE TOLD REPORTERS IMMEDIATELY

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PAGE 01 OTTAWA 04618 06 OF 06 022336Z

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

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INFO AMCONSUL MONTREAL

ALL OTHER AMCONSULS CANADA (POUCH)

LIMITED OFFICIAL USE SECTION 06 OF 06 OTTAWA 04618

AFTER TABLING REPORT THAT HE THOUGHT NEB ESTIMATE OF FUTURE OIL SUPPLIES IN CANADA IS CONSERVATIVE. HE SAID HE BELIEVES NEW POLICIES TO ENCOURAGE DEVELOPMENT OF HEAVY OIL DEPOSITS, PRODUCTION FROM ALBERTA OIL SANDS, AND TYING IN NATURAL GAS FROM WESTERN ARCTIC WILL REDUCE NEED FOR IMPORTS. NEGOTIATIONS WITH ALBERTA ON A NEW ROYALTY AND TAX REGIME FOR OIL SANDS AND HEAVY OIL PLANTS ARE CONTINUING, GILLESPIE ADDED, AND HE HOPES AGREEMENT CAN BE REACHED SOON. DURING QUESTION PERIOD NEXT DAY (MAY 27) GILLESPIE CLARIFIED THIS POINT, SAYING THAT IT WAS QUITE PROPER FOR NEB, A REGULATORY BODY, TO TAKE A CONSERVATIVE APPROACH IN ESTIMATING FUTURE SUPPLIES. NEB, HE SAID, CANNOT BASE ITS ESTIMATES "ON THE SORTS OF THINGS THAT I HOPE WILL HAPPEN AND BELIEVE WILL HAPPEN," E.G. UPGRADING FACILITIES FOR HEAVY OIL, A NEW OIL SANDS PLANT, CONSERVATION INITIATIVES BY PROVINCIAL GOVERNMENTS, A HOUSING INSULATION PROGRAM, AND USE OF CANADIAN NATURAL GAS IN EASTERN CANADA TO REPLACE FOREIGN OIL IMPORTS.

11. COMMENT: GILLESPIE'S REMARKS HIGHLIGHT THREE

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PAGE 02 OTTAWA 04618 06 OF 06 022336Z

IMPORTANT POINTS ABOUT EVOLVING GOC OIL POLICY:

-- APPARENT BREAKTHROUGH IN RELATIONSHIP WITH ALBERTA ON ENERGY POLICY REPORTED REFTEL SEEMS TO BE SOURCE OF GILLESPIE'S MORE OPTIMISTIC VIEW ON OIL SUPPLIES. EMR BELIEVES ALBERTA IS NOW READY TO SUPPORT REVENUE POLICIES AIMED AT STIMULATING HEAVY OIL AND OIL SANDS PRODUCTION.

-- EMR INTEREST IN MAXIMIZING CANADIAN NATURAL GAS PRODUCTION IN ORDER TO REDUCE DEPENDENCE ON FOREIGN OIL

SHOWS POSSIBLE LINKAGE OF OIL POLICY TO NORTHERN GAS PIPELINE DECISION. POSSIBILITY THAT ARCTIC GAS RESERVES MIGHT CONTRIBUTE SIGNIFICANTLY TO REDUCING DEPENDENCY ON FOREIGN OIL IN EASTERN CANADA, COULD INFLUENCE CABINET DECISION ON GAS PIPELINE.

-- NEB REPORT SHOULD NOT BE INTERPRETED AS IMMUTABLE FORECAST OF SUPPLY CONDITIONS IN CANADA AND THEIR RESULTING IMPACT ON EXPORT POLICY. IN PARTICULAR, AS REPORT ITSELF STATES IN PARA 8 ABOVE, NEB HAS NOT ADJUSTED ESTIMATES TO ACCOUNT FOR EFFECTS OF UPGRADING HEAVY CRUDE PRODUCTION AND REFINING. UPGRADING COULD INCREASE CANADIAN REQUIREMENTS FOR HEAVY CRUDE AND PRODUCE ADDITIONAL SUPPLIES OF SYNTHETIC (LIGHT) CRUDE.

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